# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

## FISCAL IMPACT STATEMENT

**LS 7891** | **NOTE PREPARED:** Feb 21, 2003
**BILL NUMBER:** SB 465 | **BILL AMENDED:** Feb 20, 2003

**SUBJECT:** Streamlined Sales Tax.

**FIRST AUTHOR:** Sen. Borst | **BILL STATUS:** 2nd Reading - 1st House
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL** | **IMPACT:** State
X **DEDICATED**
**FEDERAL**

**Summary of Legislation:** (Amended) The bill adds or amends various Sales Tax definitions and exemptions in order to conform to the Streamlined Sales and Use Tax Agreement. The bill establishes sourcing rules for determining the taxing situs of telecommunications services (other than mobile telecommunications services otherwise covered by current law). The bill establishes general sourcing rules for other types of transactions. It amends the statute concerning bad debt deductions from gross retail income to conform to the agreement. It amends references to carryout food in the food and beverage tax statutes to conform to the new sales tax definitions. The bill authorizes the Department of State Revenue to adopt emergency rules to implement this bill.

**Effective Date:** Upon passage; January 1, 2004.

**Explanation of State Expenditures:** *Department of State Revenue:* The Department of State Revenue is expected to absorb any administrative costs associated with this proposal.

**Explanation of State Revenues:** *Streamlined Sales and Use Tax Agreement:* In general, conforming Indiana Sales Tax law with the Streamlined Sales and Use Tax Agreement is not expected to change the taxability of items purchased in Indiana. However, the conforming definitions are expected to make changes to the tax status of three food items–ice, water, and fruit and vegetable drinks that contain are less that 50% juice by volume. The net impact of these changes is expected to generate approximately $0.6M in additional Sales Tax revenue each year. The bill will not impact that taxability of food items sold through vending machines.

*Ice*-Under current law, sales of packaged ice are subject to the state's Sales Tax. The changes in this bill will make packaged ice sales exempt from the tax. Based on industry data, it was estimated that modifying the taxability of ice sales will reduce state Sales Tax revenue by approximately $0.9 M each year.

*Water*- Drinking water sold in retail locations and labeled "natural spring water" is currently exempt from the Sales Tax. This bill would make all drinking water sold at retail locations exempt from the state's tax. (All water sold though vending machines remains taxable under this bill). Based on adjusted regional and national data, it was estimated that exempting all drinking water sold through retail outlets would decrease state Sales Tax revenue by $5.0 M each year.

*Fruit and Vegetable Drinks*- The bill will change the applicability of the Sales Tax on beverages that are noncarbonated and contain fruit or vegetable juice. Under current law, beverages that contain *any* fruit or vegetable juice are exempt from the state Sales Tax. Under the new definitions contained in the agreement, only sales of drinks with more than 50% juice by volume will be exempt from the Sales Tax. As a result of this change, state revenue is expected to increase by approximately $6.5 M each year.

*Taxing Situs of Telecommunications Services*: Implementing the Taxing Situs of Telecommunications Services provision will clarify the taxing jurisdiction on certain interstate calls made to and from Indiana. Since Indiana does not impose the Sales Tax on interstate calls, the bill is not expected to impact state Sales Tax revenue. However, if Indiana were to impose the Sales Tax on interstate calls in the future, the provision would provide a framework from which Indiana could receive Sales Tax revenue that would otherwise might not have been collected.

*Bad Debt Collection and General Sourcing Rules:* These provisions conform with the current administrative practices of the Department of State Revenue and are not expect to have a fiscal impact.

*Background Information:* The Streamlined Sales Tax Project addresses the growing problem of collecting Sales and Use Taxes on goods purchased via the internet, catalogs, and other remote sellers. As of July 25, 2002, 35 states have formally joined the Streamlined Sales Tax Project through legislative enactments or executive orders. The project seeks to remove the burden of collecting Sales Taxes from remote sellers through a simplification of state Sales and Use Tax structures, which would be applied in a more uniform way. Participation in the project would be voluntary for both remote sellers and states. The system would use certified technology providers to calculate, collect, and, should the seller choose, remit the proper Sales or Use Tax directly to the state.

In theory, removing the burdens of collecting Sales Taxes from remote sellers would help the state collect Sales and Use Taxes that currently go uncollected. Studies have estimated a wide range in the amount of revenue that Indiana may forgo because of uncollectible taxes on remote sales. One widely-reported study from the University of Tennessee's Center for Business and Economic Research estimates that Indiana may have forgone approximately $215.5M in CY 2001 in Sales Tax collections from sales over the Internet.

As a point of reference, in CY 2000 approximately 26,401 out of 2,875,104 Indiana Income Tax filers voluntarily included $947,331 in Use Taxes owed from purchases made from out-of-state firms.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Beverage World; Beverage Aisle; Progressive Grocer; U.S. Census Bureau; Convenience Store News; Institute for State Studies; Beverage Marketing Corporation; Electronic Commerce Association.

**Fiscal Analyst:** Sarah Low, John Parkey, 317-232-9854